

## The Fraser Institute's Annual Survey of Canadian Exporters: Growing Concern about Protectionist Sentiment in the United States

### Introduction

Over the past three years, The Fraser Institute has surveyed Canadian companies about the state of Canada-US trade relations and the incidence of non-tariff and non-quota trade barriers that companies operating in Canada face when exporting to the United States. The survey reveals largely unseen problems affecting Canadian exporters and may also be a harbinger of more problems to come. The vast majority of respondents believed protectionist sentiment is building in the United States and that this sentiment is already affecting Canadian companies' ability to sell in the United States.

The types of trade barriers examined here are used on both sides of the border but this study gives a Canadian perspective on cross-border issues by surveying only Canadian exporters. The survey focuses on three broad categories: discriminatory regulations, border delays, and domestic content requirements.

### Key results of survey of Canadian exporters

- **95 percent of survey respondents believe protectionist sentiment is growing in the United States**
- **68 percent of survey respondents say protectionist sentiment in the United States has already negatively affected their ability to sell into the United States**
- **83 percent of survey respondents believe protectionist laws and regulations will increase in the United States over the next year**
- **A significant minority of Canadian exporters have either stopped selling into the United States or moved production facilities to the United States to avoid non-quota, non-tariff trade barriers**
- **Two-thirds of respondents reported facing trade barriers in the 2004 survey, down from the 72 percent of respondents who reported facing such barriers in 2003, but still up from the 45 percent who said they faced such barriers in 2002**
- **The survey was sent to 800 companies with responses from 152, a response rate of 19%. Twenty respondents did not export to the United States. Survey results are based on the 132 respondents who export to the United States.**

## ABOUT THE AUTHORS

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annual trade survey in both years. He has a Bachelor of Arts (Honours) in Economics and Political Science from the University of Toronto where he also worked as a Research Assistant in the Munk Centre for International Studies.

## ACKNOWLEDGEMENTS

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We also thank the many busy people, including CEOs of major firms, who took time to complete the survey. Individual responses, of course, remain confidential.

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Trade between Canada and the United States forms the largest bilateral trading relationship in the world. Goods exports alone equal about a third of Canada's GDP (gross domestic product). Even more remarkably, Canada's US trade surplus in goods equals almost 10 percent of Canada's GDP.

These statistics underline the importance of maintaining a healthy relationship between the two countries. Many thousands of Canadians could be thrown out of work if, for instance, security concerns led to tighter border controls, or a renewed bout of US protectionism boosted by buy-America sentiment caused the United States to increase its use of the other types of trade barriers examined here.

In this world of just-in-time delivery, a simple change in border regulations or the attitudes of customs officials could inflict severe damage on the Canadian economy. Administrative measures alone—without any legislative action from Congress—could destroy tens of thousands of jobs in Canada.

The danger is heightened by what many knowledgeable observers—including the majority of Canadian exporters—believe is rising protectionist sentiment in the United States. The Bush administration has hardly been consistent in its support of free trade. Democratic presidential candidate John Kerry has called for re-examining, and

thus further politicizing, basic trade agreements. Meanwhile, Canada has been virtually silent on the trade front, with no initiatives to deepen, broaden, or safeguard our trade with our largest trading partner.

## Results

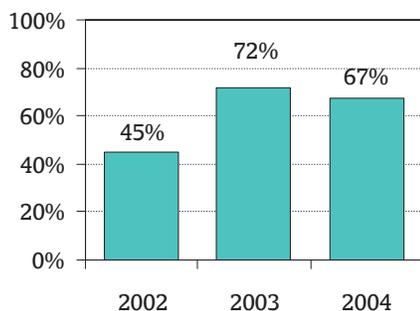
The survey was sent to 800 Canadian exporting firms. Responses were received from 152 firms, of which there were 132 exporting firms, from firms with sales worth a few hundreds of thousands of dollars to billions of dollars and from a wide cross section of industries. (See Table 1.)

**Table 1: Survey Respondents by Industry**

Agriculture / Fishing Products	15%
Automotive Products	5%
Consumer Goods	10%
Defence / Aerospace	9%
Energy / Mining	7%
Forestry Products	8%
Industrial Goods and Materials	17%
Machinery and Equipment	14%
Services	7%

This year, two-thirds of respondents reported facing non-tariff, non-quota trade barriers, down from the three-quarters of respondents who reported facing such barriers last year but still up from 2002, when only 45 percent of respondents reported facing these barriers (Figure 1). To the

**Figure 1: Percent Facing Non-Tariff, Non-Quota Trade Barriers**



extent Canada-US relations affect the flow of trade, these results coincide with the standard wisdom that relations deteriorated after 9/11 and in the lead-up to and aftermath of the Iraq war and that relations subsequently have improved, though they have not been restored to pre-9/11 levels.

That wisdom is seen to some extent in other aspects of the survey. In last year's survey, a remarkable 95 percent of respondents either agreed or strongly agreed with the view that relations had deteriorated. That sentiment was down slightly this year, though

**Table 2: Over the past year, relations between the Canadian and American governments have**

Strongly Improved	0%
Somewhat Improved	33%
Somewhat Deteriorated	53%
Strongly Deteriorated	14%

86 percent of respondents believed relations remained on a downward slide. This may reflect a belief that relations have not fully recovered in the aftermath of the Iraq war. (See table 2.)

Industries reported facing the same types of barriers in roughly the same proportion this year and last (table 3), with two exceptions. The first change is that the defence and aerospace sector experienced a significant decline in the barriers its exports faced. Second, most sectors reported increased problems with border delays, perhaps because of ongoing efforts to strengthen security. As we will see later on, most exporters believe the level of non-tariff, non-quota barriers remained the same in all categories except for border delays.

Tables 4, 5, and 6 provide more information on the categories of barriers discussed here. Canadian exporters believed discriminatory use of environmental regulations was the most common regulatory barrier they faced, followed by marking, labeling, and packaging regulations. Buy-national discrimination was most commonly reported on the federal level. Over 70 percent of respondents believed they were not treated equally with US companies by US governments. As for respondents who reported facing unreasonable border delays, less than 1 percent said they suffered product deterioration but 21

**Table 4: Discriminatory regulations faced by respondents:**

Marking, labelling or packaging	29%
US Technical & Industrial Standards	20%
US Health and Safety Standards	22%
US Environmental regulations	40%
Other	25%

**Table 5: Level of Government of Discrimination:**

Federal	54%
State	29%
Municipal	17%

**Table 6: "I am treated as fairly as my American competitors when bidding for government contracts in the United States"**

Strongly Agree	8%
Somewhat Agree	21%
Somewhat Disagree	36%
Strongly Disagree	36%

percent said the delays had a negative effect on their company's ability to sell into the United States.

Table 7 shows the actions Canadian companies took when facing non-tariff, non-quota barriers, as a percentage of the total number facing each barrier. These are broadly consistent with last year's findings. It is worth noting that in both years, a small but significant proportion of Canadian exporters

**Table 3: Unofficial Trade Barriers by Industry (%)**

	Agriculture/ Fish	Automotive	Consumer Goods	Defence/ Aerospace	Energy/ Mining	Forestry	Industrial Goods & Materials	Machinery and Equipment	Services	Other
Discriminatory Regulation	55	29	46	42	22	50	27	11	33	36
Border Delays	60	71	54	17	33	40	41	26	11	45
Buy USA	35	43	31	50	11	—	36	32	11	45
Other NT-NQ Barriers	40	14	46	33	22	—	27	5	22	18
No Unofficial Trade Barrier	15	14	15	25	56	—	36	47	56	36

**Table 7: Action taken to regain access to the US market**

	<i>Withdrawn from US market</i>	<i>Altered Production Process</i>	<i>Used another border crossing</i>	<i>Appealed</i>	<i>Hired a US broker agent</i>	<i>Opened up production facilities in the US</i>	<i>Other comments</i>
due to Discr. Reg.	2%	11%	4%	11%	15%	4%	11%
due to Border Delays	2%	8%	21%	4%	4%	6%	13%
due to Buy USA	5%	7%	0%	7%	20%	12%	10%
due to other NT-NQ Barriers	9%	6%	0	6%	13%	0%	9%

**Table 8: Importance of Trade-Related Bodies**

	<i>Labour Unions</i>	<i>Enviro NGO's</i>	<i>US Government Officials</i>	<i>US Industry Associations</i>	<i>US/Canadian Media</i>	<i>NAFTA Dispute Settlement</i>	<i>WTO Dispute Settlement</i>
Very Important	19%	20%	75%	49%	16%	8%	10%
Somewhat Important	37%	40%	20%	39%	49%	48%	52%
Not Important	44%	40%	5%	12%	34%	44%	38%

either withdrew from the US market or shifted production facilities to the United States to avoid non-tariff, non-quota barriers.

Canadian exporters' views of trade-related bodies and officials (table 8) remained stable. US government officials remained the most important group followed by business associations.

Table 9 shows that a majority of respondents believe non-quota, non-tariff barriers have somewhat increased over the past year. However, this may simply reflect a general concern over Canada-US relations and increasing problems

**Table 9: Over the past year, non-tariff, non-quota trade barriers between Canada and the United States have:**

Strongly increased	9%
Somewhat increased	68%
Somewhat decreased	23%
Strongly decreased	0%

with border delays. When respondents were asked about specific barriers, the large majority said non-tariff, non-quota barriers had not changed over the past year. (See tables 10 to 14.) The exception concerns border delays (table 12), where a slight majority report increases.

The most worrying part of the survey concerns Canadian exporters' apprehension over protectionist developments in the United States. Protectionism and outsourcing have become serious issues in this US election year. As the United States' major trading partner, and the source of an extremely large US trade deficit, Canada could easily become a target of protectionist, anti-outsourcing sentiment in the United States.

Table 15 shows that 95 percent of Canadian exporters believe that protectionist sentiment is either strongly increasing or somewhat increasing in the United States. Table 16 reveals that 68 percent of

**Table 10: Discrimination due to US packaging, marking or labeling regulations has:**

Decreased	2%
Not Changed	78%
Increased	20%

**Table 11: Discrimination against my exports under US health and safety regulations has:**

Decreased	1%
Not Changed	83%
Increased	16%

**Table 12: Delays to my exports at US border crossings have:**

Decreased	1%
Not Changed	45%
Increased	54%

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**Table 13: Discrimination when tendering for government contracts in the US has:**

Decreased	3%
Not Changed	77%
Increased	19%

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**Table 14: Restrictive effects of other domestic policies on my exports to the US have:**

Decreased	1%
Not Changed	74%
Increased	25%

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**Table 15: Currently in the United States, protectionist sentiment is:**

Strongly increasing	24%
Somewhat increasing	71%
Somewhat decreasing	4%
Strongly decreasing	0%

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respondents believe this sentiment has already adversely affected their ability to sell into the United States. This may well reflect a

broader concern than those around either official or non-tariff, non-quota trade barriers. Protectionist sentiment may also affect the willingness of individuals and companies to buy or out-source from foreign companies, quite aside from various types of trade barriers.

Table 17 shows that 83 percent of respondents believe that protectionist laws and regulations in the United States will either strongly increase or somewhat increase over the next year. The presidential election is now approaching. President Bush's record on trade is mixed while Democratic Presidential candidate John Kerry has frequently used protectionist rhetoric in his campaign. Candidates for both Houses of Congress have also campaigned against out-sourcing and foreign companies.

## Conclusion

The primary purpose of this Alert is to report on the views of Canadian exporters. However, their concerns suggest that the Canadian government should take a more

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**Table 16: Protectionist sentiment has negatively affected my ability to sell in the United States**

Strongly Agree	11%
Somewhat Agree	57%
Somewhat Disagree	23%
Strongly Disagree	9%

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**Table 17: I anticipate that protectionist laws / regulations in the United States over the next year will:**

Strongly increase	14%
Somewhat increase	69%
Somewhat decrease	17%
Strongly decrease	0%

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active role in deepening, broadening, and protecting our trade relationship with the United States. The Canadian government needs to mend fences and build relations with the United States over the next year. The potential damage to the Canadian economy from protectionism in the United States could be immense.